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all of its affiliates, including Citibank, N.A.

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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In re : Chapter 11
: Case No. 08-13555 (JMP)
LEHMAN BROTHERS HOLDINGS INC., et al., :
: Debtors. : (Jointly Administered)
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**STATEMENT OF CITIGROUP INC. IN SUPPORT OF
MOTION OF DEBTORS FOR ORDER, PURSUANT TO
SECTION 105 OF THE BANKRUPTCY CODE,
CONFIRMING STATUS OF CITIBANK CLEARING ADVANCES**

Citigroup Inc. and certain of its subsidiaries and affiliates (including Citibank, N.A. and its branches ("Citibank")) ("collectively, "Citigroup"), by and though their undersigned attorneys, respectfully submit this statement in support of the motion of Lehman Brothers Holdings Inc. ("LBHI") and LB 745 LLC ("LB 745" and, together with LBHI, the "Debtors" and, together with their affiliates, "Lehman"), as debtors in possession, for an order confirming the status of clearing advances (the "Motion"), as follows:

1. Citigroup provides an array of financial services to Lehman in the United States and in many foreign jurisdictions. Such services include the establishment and maintenance of cash deposit and custodial accounts, the provision of credit facilities, trade clearing and settlement services, agency and trust services, foreign exchange-related services, and securities lending. In addition, among other things, Citibank is counterparty to certain Lehman entities in connection with thousands of trading positions under numerous financial contracts such as interest-rate and foreign-exchange swap agreements, securities contracts, and repurchase agreements.

2. For the purpose of securing Citigroup's financial exposure to Lehman, LBHI maintains a cash deposit account (the "Account") at Citibank with a current balance in the amount of approximately \$1.763 billion. Citibank has the right to set off against the Account prepetition obligations of LBHI owed to Citibank under applicable law, various agreements with LBHI and other Lehman entities, and various guarantees executed by LBHI.¹

Clearing Advances

3. Pursuant to a CLS Settlement Services Agreement (the "CLS Clearance Agreement"), Citibank provides global foreign exchange clearing and settlement services to Lehman Brothers Inc. ("LBI"), a subsidiary of LBHI that is a registered broker-dealer with the Securities and Exchange Commission. In addition,

¹ Shortly before LBHI filed its chapter 11 case, Citibank set off \$512 million against the Account. Citibank is currently in the process of evaluating and calculating the value of its prepetition setoff claim against LBHI. Due to the volume and complexity of the transactions between the parties as well as the volatility of the securities market, the process of accurately fixing Citibank's setoff claim is time consuming and difficult.

Citigroup entities are party to various clearing and custodial agreements (together with the CLS Clearance Agreement, the “Clearance Agreements”) with Lehman entities (including LBI) (collectively, the “Lehman Clearance Parties”).

4. Pursuant to each of the Clearance Agreements, Citigroup may, in its sole discretion, make advances to or for the benefit of the respective Lehman Clearance Parties, which are payable by the respective Lehman Clearance Parties upon demand by Citibank. The obligations of the Lehman Clearance Parties under the Clearance Agreements are guaranteed by Lehman pursuant to that certain guaranty agreement, dated as of January 7, 2004 (as amended, the “Guaranty”) in favor of Citigroup.² A copy of the Guaranty is annexed to the Motion as Exhibit “C.” Among other things, section 8 of the Guaranty authorizes Citigroup to set off and apply any and all deposits of LBHI (including the Account) against LBHI’s obligations under the Guaranty.

5. To Citigroup’s knowledge, as of the date hereof, LBI is not the subject of a proceeding under the Securities Investor Protection Act, nor is it a debtor in a case under title 11 of the United States Code (the “Bankruptcy Code”). Prior to the Commencement Date (as defined in the Motion), Citibank provided intraday advances of up to \$19 billion to Lehman, with the actual amount of the advances fluctuating day to

² LBHI has executed numerous guaranty agreements in favor of Citigroup, some of which may cover obligations of the Lehman Clearance Parties under certain Clearance Agreements. Citigroup acknowledges and agrees that the Motion and the order approving the Motion only apply with respect to (i) any written, executed guaranty agreement issued by LBHI in favor of Citigroup prior to the Commencement Date that cover obligations of the Lehman Clearance Parties under the Clearance Agreements and/or (ii) any direct obligations of LBHI to Citigroup under the Clearance Agreements.

day, depending on volume and market conditions. Since the Commencement Date, Citibank has made advances of approximately \$9 billion daily to or for the benefit of the Lehman Clearance Parties at the request of Lehman and the Federal Reserve Bank of New York (the “Recent Advances”). The Recent Advances were necessary to clear and facilitate the settlement of securities and foreign exchange transactions with customers or clients of the Lehman Clearance Parties to avoid a disruption of the financial markets. Citibank may elect to make additional advances under the Clearance Agreements in its sole discretion (such additional advances, together with the Recent Advances and any other advances incidental to, and other amounts owing to Citibank in respect of, the clearing process, the “Postpetition Advances”).

6. Pursuant to the Guaranty, all Postpetition Advances are guaranteed by LBHI. The Motion does not seek a validation of Citigroup’s Guaranty from LBHI, nor does it seek a determination that Citigroup is entitled to administrative expense status for the Clearing Claims (as defined in the Motion). Rather, out of an abundance of caution, the Debtors request confirmation that the Clearing Claims arising from Postpetition Advances or other transactions after the Commencement Date will be allowed as claims under the Guaranty and that Citibank may set off the Clearing Claims against the Account to the same extent as if the Postpetition Advances had been made before the Commencement Date. Absent such relief, Citigroup will be unable to continue to make Postpetition Advances as it had been doing at LBHI’s request. Citigroup submits that such relief is appropriate under section 105 of the Bankruptcy Code and respectfully requests that the Court approve the Motion and enter the order in the form attached to the Motion.

7. To preserve Citibank's rights of setoff against the Account, LBHI acknowledges that the maintenance as its collateral by Citibank of the cash in the Account does not constitute a unilateral administrative hold or a violation of the automatic stay. For the purpose of resolving any and all disputes related to or in connection with the Account, an "administrative hold" will be deemed to commence from the date LBHI requests a withdrawal from the Account and Citibank refuses to comply with such request.

Dated: New York, New York CADWALADER, WICKERSHAM & TAFT LLP
September 18, 2008

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